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E.O. 11652: N/A
TAGS: UNCTAD
SUBJECT: UNCTAD SECOND PREPARATORY MEETING ON COTTON,
MARCH 28-31, 1978

REFERENCE: GENEVA 4948

1. SUMMARY: THE SECOND PREPARATORY MEETING ON COTTON UNDER THE UNCTAD PREPARATORY CONFERENCE ON COTTON WAS HELD IN GENEVA FROM MARCH 28-31. THE MEETING, THE FIRST HELD AT THE LEVEL OF GOVERNMENTAL EXPERTS, FOCUSED MAINLY ON THE ISSUE OF PRICE STABILITY IN THE INTERNATIONAL COTTON MARKET BUT ALSO REVIEWED THE TOPICS OF MARKET PROMOTION, RESEARCH AND DEVELOPMENT, AND BRIEFLY DISCUSSED INFORMATION PROGRAMS AND THE COTTON FUTURES MARKET. THE UNCTAD SECRETARIAT WITH THE SUPPORT OF SOME PRODUCING COUNTRIES ARGUED THAT PRICE FLUCTUATIONS IN THE INTERNATIONAL COTTON MARKET SINCE 1972-73 WERE EXCESSIVE. THE US AND SEVERAL OTHER PRODUCING COUNTRIES REPORTED THAT THEIR OWN EXPERIENCE WITH COTTON INDICATED THAT THE PRICE DATA RELIED UPON BY THE SECRETARIAT OVERSTATED THE EXTEND OF FLUCTUATIONS IN COTTON PRICES. THE MEETING AGREED THAT FURTHER ANALYTICAL WORK ON THE STABILITY ISSUE WOULD BE NEEDED PRIOR TO CONSIDERATION OF MEASURES IN THIS AREA. (SEE REFTEL FOR TEXT OF CONCLUSIONS). END SUMMARY.

2. THE FIRST UNCTAD EXPERTS' MEETING ON COTTON FOCUSED PRINCIPALLY ON THE ISSUE OF PRICE STABILITY. THE UNCTAD SECRETARIAT PRESENTED A STUDY WHICH RELIED ON A SERIES OF PRICE QUOTATIONS FOR COTTON C.L.F. NORTHERN EUROPE PUBLISHED BY COTTON OUTLOOK. SECRETARIAT STATED THAT THIS PRICE SERIES REVEALED EXCESSIVE FLUCTUATIONS SINCE 1972-73 AND LIMITED OFFICIAL USE

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SUGGESTED THAT EARLIER STABILITY IN COTTON PRICES WAS RESULT OF MAINTENANCE BY US PRIOR TO 1968 OF SUBSTANTIAL SURPLUS STOCKS UNDER PRICE SUPPORT PROGRAMS DISCONTINUED IN 1966. SECRETARIAT'S CONCLUSIONS WERE ENDORSED BY EGYPT, MEXICO, NIGERIA, POLAND, TURKEY AND THE NORDIC COUNTRIES WHO INDICATED THEY FELT PRICE FLUCTUATIONS WERE EXCESSIVE. HOWEVER, THEY PRESENTED NO OTHER DATA OR ANALYSIS TO SUBSTANTIATE THIS. ARGENTINA, COLOMBIA AND GUATEMALA SAID THEY WOULD NOT WANT TO GO BACK TO SITUATION SIMILAR TO 1950'S AND EARLY 1960'S WHEN LARGE US STOCKS DEPRESSED PRICES.

3. US DELEGATION QUESTIONED THE ADEQUACY OF THE SECRETARIAT'S REPORT ON PRICE FLUCTUATIONS, POINTING OUT THAT ANALYSIS OF PRICES AND THE MARKET IS A COMPLEX SUBJECT. IT NOTED, FOR EXAMPLE, THAT DATA RELIED ON BY SECRETARIAT WERE QUOTATIONS C.I.F. NORTHERN EUROPE AND DID NOT NECESSARILY REFLECT PRICES AT WHICH ACTUAL TRANSACTIONS OCCURRED OR VOLUME OF TRANSACTIONS. USDEL SUGGESTED THAT APPROPRIATELY WEIGHTED PRICE DATA WOULD CONFIRM THAT THE IMPORTANCE OF PRICE INSTABILITY IS SIGNIFICANTLY LESS THAN INDICATED BY THE SECRETARIAT'S ANALYSIS. US REPORTED ON ITS STUDY OF UNIT VALUES OF US COTTON EXPORTS SINCE 1970-71, NOTING THAT

VARIATIONS IN THESE UNIT VALUES WERE SIGNIFICANTLY LESS THAN IN PRICE SERIES USED IN SECRETARIAT STUDY. EC AND US DELEGATIONS ALSO SUGGESTED THAT FLUCTUATIONS IN COTTON PRICES IN 1972-73 AND THE FOLLOWING YEARS WERE IN PART ATTRIBUTABLE TO THE INCREASES IN PETROLEUM PRICES AND THE DISTURBANCES IN GLOBAL ECONOMIC PATTERNS WHICH FOLLOWED THOSE INCREASES. THE DELEGATIONS OF GUATEMALA, EL SALVADOR, CHAD, COLOMBIA AND ARGENTINA ALSO QUESTIONED THE VALIDITY OF THE SECRETARIAT'S PRICE STUDY. SECRETARIAT OF INTERNATIONAL COTTON ADVISORY COMMITTEE PRESENTED PAPER ON STRUCTURE OF COTTON PRICES AND COSTS OF PRODUCTION WHICH NOTED COTTON MARKET FEATURED COMPLEX STRUCTURE OF PRICES, ILL SUITED TO SIMPLISTIC ANALYSIS.

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4. WHILE ACKNOWLEDGING THAT VIEWS AMONG GOVERNMENTS DIFFERED ON EXTENT OF FLUCTUATIONS IN COTTON PRICES, MEETING REACHED CONSENSUS ON NEED FOR FURTHER STUDY OF EXTENT, NATURE, CAUSES AND CONSEQUENCES OF FLUCTUATIONS IN COTTON PRICES IN WORLD MARKETS. STUDY WILL LOOK IN PARTICULAR AT IMPACT OF PRICE FLUCTUATIONS ON EXPORT EARNINGS OF DEVELOPING COUNTRIES. SEVERAL DELEGATIONS, INCLUDING MEXICO AND ARGENTINA, EXPRESSED REGRET THAT SECRETARIAT HAD NOT SUPPLIED INFORMATION ON FUNCTIONING OF COTTON MARKET REQUESTED BY FIRST COTTON PREPARATORY CONFERENCE HELD IN JUNE 1977.

USSR, ONE OF THE WORLD'S TWO MAJOR COTTON PRODUCERS AND EXPORTERS, LIMITED ITS PARTICIPATION TO REITERATION OF ITS NAIROBI POSITION SUPPORTING INTERNATIONAL COMMODITY ARRANGEMENTS AND ITS STATEMENT AT FIRST COTTON PREPARATORY CONFERENCE, INCLUDING NOTE THAT PLANNED NATURE OF THEIR TRADE WITH SOCIALIST COUNTRIES FEATURING LONG-TERM FIXED PRICE CONTRACTS PREVENTED THEM FROM INCLUDING THAT TRADE IN ANY PROPOSED COTTON AGREEMENT. THEIR POSITION DREW STRONG CRITICISM FROM GUATEMALAN REPRESENTATIVE WHO UNSUCCESSFULLY SOUGHT USSR RESPONSE TO QUESTIONS ABOUT ITS WILLINGNESS TO CONTRIBUTE TO FINANCING OF BUFFER STOCKS. GUATEMALAN QUESTIONED HOW ANY POSSIBLE STABILIZATION AGREEMENT COULD BE SUCCESSFUL WITHOUT PARTICIPATION OF ALMOST 25 PERCENT OF WORLD COTTON TRADE WHICH USSR ACCOUNTS FOR AND NOTED POTENTIAL IMPACT ON DEVELOPING COUNTRIES' ECONOMIES OF SOVIET UNION'S DEMAND ON FREE MARKET FOR SEEDS AND OTHER AGRICULTURAL INPUTS.

5. MEETING ENDORSED FURTHER WORK IN MARKET PROMOTION AND
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RESEARCH AND DEVELOPMENT PROGRAMS FOR COTTON AND SEVERAL COUNTRIES (PRINCIPALLY LATINS, US AND EC) EXPRESSED APPROV-

AL OF PROGRAMS IN THESE AREAS OF THE INTERNATIONAL INSTITUTE FOR COTTON (ITC), URGING THAT SUPPORT FOR ITC BE CONTINUED AND STRENGTHENED. CONSIDERABLE CONCERN WAS VOICED OVER UNDP-PROPOSED COTTON DEVELOPMENT INTERNATIONAL, FOCUSING ON CDI'S FINANCIAL ARRANGEMENTS AND POSSIBLE DUPLICATION OF INTERNATIONAL EFFORTS IN COTTON. HOWEVER, EGYPT AND TURKEY, BOTH SUPPORTERS OF CDI, INDICATED RELUCTANCE TO HAVE MEETING ENDORSE SUPPORT FOR IIC EXPLAINING THAT THIS MIGHT IMPLY COMMITMENTS BY GOVERNMENTS TO JOIN OR CONTRIBUTE TO IIC.

6. THE MEETING NOTED THE NEED FOR BETTER INFORMATION ON COTTON, INVITED ICAC TO PURSUE ITS WORK ON IMPROVING AVAILABLE COTTON INFORMATION AND REQUESTED ICAC TO REPORT ON PROGRESS OF THEIR WORK AT THE NEXT MEETING.

7. IN MEETING OF PRODUCERS, LATIN AMERICAN REPRESENTATIVES CITED INTEREST BY A NUMBER OF COUNTRIES IN OBTAINING BETTER UNDERSTANDING OF COTTON FUTURES TRADING, AND SAID THEY WERE INVESTIGATING THE POSSIBILITY OF ESTABLISHING FACILITIES FOR SUCH TRADING. THIS IS BEING DONE IN COOPERATION WITH NEW YORK COTTON EXCHANGE. SUBJECT OF FUTURES TRADING WAS NOT BROUGHT UP IN PLENARY SESSION. UNCTAD SECRETARIAT IS DOING STUDY ON COTTON MARKETING WHICH WILL INCLUDE SECTION ON FUTURES TRADING.

8. DISCUSSIONS IN CONTACT GROUP REVEALED SIGNIFICANT DIFFERENCES IN APPROACHES TO POSSIBLE MEASURES IN STABILIZATION FIELD. EGYPT, WHICH THROUGHOUT APPEARED TO BE SERVING AS MOUTHPIECE FOR UNCTAD SECRETARIAT, SAID THAT PRIORITY SHOULD BE GIVEN TO MEASURES TO ASSIST COUNTRIES MOST SERIOUSLY AFFECTED BY FLUCTUATIONS AND CALLED FOR INTENSIVE STUDY OF INTERNATIONALLY COORDINATED NATIONAL

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REF: GENEVA 4948

STOCKS. MEXICO, NIGERIA, TURKEY AND PAKISTAN SAID THAT MEASURES TO BE CONSIDERED SHOULD TAKE INTO CONSIDERATION NEEDS OF ALL AFFECTED DEVELOPING COUNTRIES AND SHOULD NOT EXCLUDE INTERNATIONAL BUFFER STOCKS. CHAD CALLED FOR MEASURES TO STABILIZE THE EARNINGS FROM COTTON OF DEVELOPING COUNTRIES. THE EC INDICATED A WILLINGNESS TO CONSIDER MEASURES TO ASSIST THOSE DEVELOPING COUNTRIES MOST SERIOUSLY AFFECTED BY COTTON PRICE FLUCTUATIONS.

9. THE GENERAL RECOGNITION OF THE UNSATISFACTORY STATE OF ANALYSIS OF THE STABILIZATION ISSUE AND THE LACK OF CONSENSUS ON SPECIFIC MEASURES AMONG THOSE COUNTRIES ANXIOUS TO CONSIDER THEM LED THE MEETING TO MAKE NO REQUESTS TO THE SECRETARIAT FOR STUDY OF PARTICULAR MEASURES. HOWEVER, THE MEETING RECOMMENDED THAT FOLLOWING CONCLUSION OF FURTHER STUDIES, THE SECRETARIAT CONTACT LEADING PRODUCING AND CONSUMING COUNTRIES TO TRY TO IDENTIFY POSSIBLE OPTIONS WHICH MIGHT PROVIDE A BASIS FOR FUTURE WORK.

10. THE SECRETARIAT SAID IT COULD NOT COMPLETE THE NECESSARY WORK BY JUNE. THE DATE FOR THE NEXT EXPERTS' MEETING ON COTTON WAS LEFT OPEN, BUT A SEPTEMBER OR OCTOBER DATE APPEARS LIKELY.

11. COMMENT. MOST DIFFICULT ASPECT OF MEETING AROSE IN CONTACT GROUP WHERE SOME AFRICAN AND NEAR EASTERN DELS SOUGHT TO HAVE MEETING ENDORSE UNCTAD SECRETARIAT GOING BEYOND ANALYSIS TO A CONSIDERATION OF MEASURES FOR STABILIZATION, IN PARTICULAR, TO CONSIDER MEASURES SUITED TO THE NEEDS OF THOSE DEVELOPING COUNTRIES MOST SERIOUSLY AFFECTED BY PRICE FLUCTUATIONS. INTERNATIONAL BUFFER STOCKS LIMITED OFFICIAL USE

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HAVE BEEN ACCEPTED AS IMPRACTICAL BY ALMOST ALL PRODUCERS AND UNCTAD SECRETARIAT SO NEXT ALTERNATIVE IS INTERNATIONALLY COORDINATED, NATIONALLY HELD STOCKS. BUT EVEN HERE MANY LDC PRODUCERS ARE NOT INTERESTED. THIS LEAVES LITTLE BUT SOME FORM OF INTERNATIONAL ASSISTANCE FOR NATIONALLY HELD STOCKS, A PROSPECT MOST ACTIVELY PURSUED BY CHAD. SINCE SUCH A MEASURE IS ONE OF THE OTHER MEASURES ENVISAGED BY THE G-77 UNDER THE SECOND WINDOW OF THE COMMON FUND, IT WAS NO DOUBT WITH THIS IN MIND THAT SOME LDC'S SUPPORTED THIS APPROACH IN COTTON. HOWEVER, THE MIXED SUPPORT IT RECEIVED, ESPECIALLY WHERE THE QUALIFIER "MOST SERIOUSLY AFFECTED" WAS ADDED, SHOWED UP THE PROBLEMS THAT CAN ARISE WITHIN THE G-77 WHEN A SPECIFIC COMMODITY IS CONSIDERED. THE US IN ANY CASE INDICATED IT COULD NOT AGREE TO THE SECRETARIAT STUDYING STABILIZATION MEASURES APPLICABLE TO ONLY ONE CATEGORY OF LDC PRODUCERS AND/OR DESIGNED TO STABILIZE EXPORT EARNINGS IN A GIVEN COMMODITY. END COMMENT. VANDEN HEUVEL

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